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Before the
Federal Communications Commission
Washington, D.C. 20554

FCC 93-492

In the Matter of

Simplification of the
Depreciation Prescription
Process

CC Docket No. 92-296

ORDER INVITING COMMENTS

Adopted: November 8, 1993 ; Released: November 12, 1993

Comment Date: December 17, 1993

Reply Comment Date: January 21, 1994

By the Commission:

I. INTRODUCTION

1. On September 23, 1993, this Commission adopted streamlined depreciation prescription procedures for American Telephone and Telegraph Company (AT&T) and those local exchange carriers (LECs) regulated under the Commission's price cap incentive regulatory model (price cap LECs).¹ The streamlining approach we selected for the price cap LECs requires us to establish ranges of projection life and future net salvage factors for as many plant accounts as feasible, beginning in 1994.² By this Order, we invite comment on the selected accounts and the proposed projection life and future net salvage ranges set forth in the Appendix.

II. BACKGROUND

2. Prior to adoption of the Depreciation Simplification Order, the depreciation prescription process required carriers to submit extensive data to support their future net salvage, projection life, and survivor curve estimates (basic factors) underlying proposed depreciation rates.³ These data requirements often resulted in voluminous submissions, numbering 20-25 pages of analyses for each plant account. In recognition of the regulatory, technological, and market changes that price cap LECs face today, we concluded that the process could and

¹ Simplification of the Depreciation Prescription Process, Report and Order, CC Docket 92-296, FCC 93-452 (adopted September 23, 1993) (Depreciation Simplification Order).

² We set forth in the Depreciation Simplification Order the streamlined filing requirements for AT&T. Id. at para. 93.

³ See Simplification of the Depreciation Prescription Process, Notice of Proposed Rulemaking, 8 FCC Rcd 146, at para. 147 (1993).

should be simplified. Thus, we determined that ranges could be established for the future net salvage and projection life estimates.⁴ Under our new process, if a carrier meeting the requisite criteria⁵ proposes to use future net salvage and projection life estimates from within established ranges, it will not need to submit the detailed supporting data now required.⁶

3. We determined that the new, streamlined procedures should be implemented in phases, beginning with the accounts most readily adaptable to the range approach. We now identify accounts for which we propose to establish ranges for use beginning in 1994. We solicit public comment on these proposals.

III. DISCUSSION

A. The Accounts

4. In the Depreciation Simplification Order, we concluded that ranges should be established for all plant accounts if feasible. We also expressed our desire to establish ranges for as many accounts as practicable for use in 1994. However, we acknowledged that technical problems make it difficult to establish ranges for certain accounts.⁷ Given our current resources, we concluded that we would be unable to resolve these technical problems so that ranges for all accounts could be used beginning in 1994. After detailed review of current depreciation data, we tentatively conclude that the plant categories listed in the Appendix meet the range criteria established by the Depreciation Simplification Order, and thus should be selected for the use of ranges in 1994.

⁴ Depreciation Simplification Order at para. 6.

⁵ Id. at paras. 72-74.

⁶ We delegated to the Common Carrier Bureau the authority to determine the filing requirements, consistent with our decision, necessary for range accounts. Id. at n. 129.

⁷ Id. n. 110.

5. As set forth in the Appendix, we propose to establish ranges for twenty-two plant categories.⁸ We direct the Bureau to recommend ranges for the remaining accounts if feasible as soon as possible. For the most part we are proposing to establish ranges at the plant account level. For four accounts⁹, however, we are proposing to establish ranges for homogeneous subdivisions of accounts, which are referred to as "rate categories."¹⁰ For these accounts we currently prescribe rates at the rate category level when carriers so request, because it enables the carriers to simplify their analyses and it results in more accurate estimates for the accounts as a whole. We invite comment on this proposal.

6. If we implement these proposals, only those carriers seeking depreciation rates at the rate category level will be able to avail themselves of the streamlined procedures for the Circuit Equipment, Aerial Cable, Underground Cable, and Buried Cable accounts. We encourage the carriers who do not currently subdivide these accounts to do so because it will result in more accurate rates and it will enable them to take advantage of the streamlined procedures. We do not believe it will be difficult or expensive for these carriers to change to the rate category procedure because our accounting rules already require them to maintain the subsidiary records necessary to accomplish this.¹¹

B. The Ranges

7. In the Depreciation Simplification Order, we set forth a number of specific data that should be considered in establishing the projection life and future net salvage ranges. These data include, but are not limited to: a range of +/- one standard deviation around an industry-wide mean of basic factors underlying currently prescribed rates; the number of carriers encompassed by this range; and any trends of LEC plant retirement and modernization plans that are not fully reflected in current basic factors.¹² However, we recognized that these specific data must be considered in light of our obligation to prescribe reasonable depreciation rates:

⁸ At this time, we are not proposing to establish ranges for the following nine complete and three partial accounts: Accounts 2121, Buildings; 2211, Analog Electronic Switching; 2212, Digital Electronic Switching; 2215, Electro-Mechanical Switching; 2220, Operator System; 2232, Digital portion of the Circuit Equipment Account; 2411, Poles; 2421, Metallic portion of Aerial Cable; 2423, Metallic portion of Buried Cable; 2425, Deep Sea Cable; 2426, Intrabuilding Cable; and 2431, Aerial Wire.

⁹ The four accounts for which we propose to prescribe ranges at the rate category level are: Accounts 2232, Circuit Equipment; 2421, Aerial Cable; 2422, Underground Cable; and 2423, Buried Cable.

¹⁰ Depreciation Simplification Order at n. 91.

¹¹ See, e.g., 47 C.F.R. §§32.2421(a).

¹² Depreciation Simplification Order at para. 62.

... we wish to make the ranges wide enough to accommodate a significant number, if not all, of the LECs. On the other hand, we must not make the ranges so wide that they would no longer enable us to exercise effective oversight of depreciation rates.¹³

Thus, in setting ranges, we considered both the specific data enumerated in the Depreciation Simplification Order and our obligation to prescribe reasonable depreciation rates. In the Appendix, we set forth our proposed projection life and future net salvage ranges for the proposed range accounts. We invite comment on the proposed ranges.

IV. PROCEDURAL MATTERS

A. Ex Parte

8. This is a non-restricted notice and comment rulemaking proceeding. Ex Parte presentations are permitted, except during the Sunshine Agenda period, provided they are disclosed as provided in the Commission's rules.¹⁴

B. Regulatory Flexibility

9. We certify that the Regulatory Flexibility Act of 1980 does not apply to this proceeding because if the proposals in this Order Inviting Comments are adopted, there will not be a significant economic impact on a substantial number of small business entities, as defined by Section 601(3) of the Regulatory Flexibility Act.¹⁵ Because of the nature of local exchange and access service, the Commission has concluded that small telephone companies are dominant in their fields of operation and therefore are not "small entities" as defined by that act.¹⁶ The Secretary shall send a copy of this Order Inviting Comments, including this certification, to the Chief Counsel for Advocacy of the Small Business Administration in accordance with Section 603(a) of that act.¹⁷

V. COMMENT DATES

10. We invite comment on the proposals set forth above. Pursuant to applicable procedures set forth in Sections 1.415 and 1.419 of the Commission's Rules,¹⁸ interested parties may file comments on or before December 17, 1993, and reply comments on or before January 21, 1994. To file formally in this

¹³ Id. at para. 61.

¹⁴ See generally 47 C.F.R. §§ 1.1202, 1.1203, 1.1206(a).

¹⁵ 5 U.S.C. §601(3).

¹⁶ See MTS and WATS Market Structure, 93 FCC 2d 241, 338-39 (1983).

¹⁷ 5 U.S.C. §603(a).

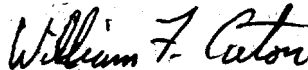
¹⁸ 47 CFR §§ 1.415, 1.419.

proceeding, interested parties must file an original and four copies of all comments, reply comments, and supporting comments. If commenters want each Commissioner to receive a personal copy of their comments, they must file an original plus nine copies. Interested parties should send comments and reply comments to Office of the Secretary, Federal Communications Commission, Washington, D.C. 20554. Parties should also file one copy of any documents filed in this docket with the Commission's copy contractor, International Transcription Services, Room 246, 1919 M Street, N.W., Washington, D.C. 20554. We also ask that parties send a courtesy copy of their comments to the Accounting and Audits Division, 2000 L Street, N.W., Washington, D.C. 20036. Comments and reply comments will be available for public inspection during regular business hours in the FCC Reference Center (Room 239) of the Federal Communications Commission, 1919 M Street, N.W., Washington, D.C. 20554.

VI. ORDERING CLAUSE

11. Accordingly, IT IS ORDERED, pursuant to Sections 1, 4(i), 4(j), and 220(b) of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151, 154(i), 154(j), and 220(b), that NOTICE IS HEREBY GIVEN of proposed plant accounts for which basic factor ranges should be established and the ranges proposed for those accounts to be used in the depreciation prescription process as described in Simplification of the Depreciation Prescription Process, CC Docket No. 92-296, FCC No. 93-452.

FEDERAL COMMUNICATIONS COMMISSION


William F. Caton
Acting Secretary

Appendix

Appendix

PROPOSED ACCOUNTS AND RANGES FOR INITIAL IMPLEMENTATION

ACCOUNT NUMBER	ACCOUNT NAME	DEPRECIATION RATE CATEGORY	PROJECTION LIFE RANGE (YEARS)		FUTURE NET SALVAGE RANGE (PERCENT)	
			LOW	HIGH	LOW	HIGH
2112	Motor Vehicles	Motor Vehicles	7.5	9.5	10	20
2113	Aircraft	Aircraft	7	10	30	60
2114	Special Purpose Vehicles	Special Purpose Vehicles	12	18	0	10
2115	Garage Work Equipment	Garage Work Equipment	12	18	0	10
2116	Other Work Equipment	Other Work Equipment	12	18	0	10
2122	Furniture	Furniture	15	20	0	10
2123.1	Office Support Equip	Office Support Equip	10	15	0	10
2123.2	Co. Communications Equip	Co. Communications Equip	7	10	-5	10
2124	General Purpose Computers	General Purpose Computers	6	8	0	5
2231	Radio Systems	Radio Systems	9	15	-5	5
2232	Circuit Equipment	Digital Data Service	7	11	-5	10
2232	Circuit Equipment	Analog	8	11	-5	0
2311	Station Apparatus	Station Apparatus	5	8	-5	5
2341	Large PBX	Large PBX	5	8	-5	5
2351	Public Telephone	Public Telephone	7	10	0	10
2362	Other Term Equipment	Other Term Equipment	5	8	-5	5
2421	Aerial Cable	Non-Metallic	25	30	-25	-10
2422	Underground Cable	Non-Metallic	25	30	-20	-5
2422	Underground Cable	Metallic	25	30	-30	-5
2423	Buried Cable	Non-Metallic	25	30	-10	0
2424	Submarine Cable	Submarine Cable	25	30	-5	0
2441	Conduit Systems	Conduit Systems	50	60	-10	0